

## Message Text

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PAGE 01 TOKYO 13319 01 OF 02 111226Z

73

ACTION EA-10

INFO OCT-01 EUR-08 ISO-00 AID-05 CIAE-00 COME-00 EB-04

FRB-01 INR-05 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-06

SP-02 CIEP-01 LAB-01 SIL-01 OMB-01 DRC-01 /050 W

----- 090738

R 111050Z OCT 74

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 5212

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY THE HAGUE

AMCONSUL HONG KONG

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY SEOUL

AMEMBASSY STOCKHOLM

USEC MISSION BRUSSELS

USOECD MISSION PARIS

LIMITED OFFICIAL USE SECTION 1 OF 2 TOKYO 13319

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: RECENT FOREIGN EXCHANGE MARKET DEVELOPMENTS

SUMMARY: YEN HAS DECLINED BY 1.6 PERCENT FROM  
SEPTEMBER 24 PEAK AND IS NOW BACK TO LEVEL OF  
YEN 299.30 PER DOLLAR. THERE IS SOME INDICATION  
THE BOJ IS AGAIN GIVING YEN ON MODERATE SUPPORT AT THIS  
CURRENT LEVEL. AROUND MID-SEPT YEN HAD APPRECIATED  
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PAGE 02 TOKYO 13319 01 OF 02 111226Z

ABRUPTLY BY 2.7 PERCENT TO PEAK OF 294.60

ON SEPT 24 FOLLOWING FAVORABLE B/P REPORT FOR AUG.  
 AND NEWS OF OFFICIAL BORROWINGS OF PETRO-DOLLARS. IN  
 FORWARD MARKET, BOTH THREE-MONTH AND SIX-MONTH RATES  
 HAVE CONSISTENTLY MAINTAINED SLIGHT DOLLAR PREMIUMS  
 IN PAST THREE WEEKS. TRADING VOLUME HAS BEEN  
 MODERATE EXCEPT FOR WEEK OF SEPT. 30 - OCT. 4 WHEN  
 SPOT VOLUME ROSE TO TOTAL OF \$453 MILLION. FOLLOWING  
 ARE RECENT FOREX RATES ALONG WITH COMMENTARY BASED  
 ON BANKING SOURCES. END SUMMARY.

## 1. FOREIGN EXCHANGE RATES:

DATE	SPOT	3 MO FWD	6 MO FWD	SPOT VOL
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(MIL DOLS)

(ANNUAL PERCENT DOLLAR  
PREMIUM)

SEP 23 -----CLOSED-----

SEP 24	294.60 (-) 0.81	0.68	94
SEP 25	295.50 1.22	0.95	67
SEP 26	295.70 1.39	1.18	56
SEP 27	297.70 0.40	1.37	104

SEP 30	298.50 2.01	1.01	122
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OCT 1	299.00 0.80	1.34	88
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OCT 2	298.60 2.01	1.11	73
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OCT 3	299.00 1.94	1.14	106
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OCT 4	299.30 0.94	0.77	64
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PAGE 03 TOKYO 13319 01 OF 02 111226Z

OCT 7	299.60 0.53	0.70	58
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OCT 8	299.90 0.53	0.47	83
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OCT 9	299.40 1.20	0.80	72
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OCT 10 -----CLOSED-----

OCT 11 299.30 0.40 0.53 55

NOTE: SPOT RATE FOR OVERRIGHT DELIVERY IS  
"REPRESENTATIVE " OR MODAL RATE OF DAILY TRANSACTIONS.

2. FOREX MARKET OBSERVES CITE USUAL "TECHNICAL"  
FACTOR AS CAUSING VERY RECENT YEN DECLINES. THESE  
INCLUDE INTRA-MONTH SEASONAL FACTORS SUCH AS  
SETTLEMENT OF IMPORT USANCE CREDITS, SALE OF  
EXPORT BILLS, DOMESTIC FINANCIAL SITUATION, ETC. THESE  
FACTORS EXPECTED TO REVERSE THEMSELVES AFTER MID  
OCTOBER AFTER WHICH OBSERVERS WILL STRENGTHEN YEN RATE AGAIN.

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PAGE 01 TOKYO 13319 02 OF 02 122321Z

70

ACTION EA-10

INFO OCT-01 EUR-08 ISO-00 AID-05 CIAE-00 COME-00 EB-04

FRB-01 INR-05 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-06

SP-02 CIEP-01 LAB-01 SIL-01 OMB-01 DRC-01 /050 W

----- 111991

R 111050Z OCT 74

FM AMEMBASSY TOKYO

TO SECSTATE WASHCS 5213

INFO AMEMBASSY BERN

AMEMBASSY BONN ARUP

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY THE HAGUE

AMCONSUL HONG KONG

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

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LIMITED OFFICIAL USE SECTION 2 OF 2 TOKYO 13319

3. GOJ REPORTEDLY ENCOURAGING FOREIGN BANKS TO BRING IN ADDITIONAL DOLLARS BY DRAWING ON UNUTILIZED SWAP LINES AND MAKING NEW IMPACT LOANS. HOWEVER, INFLOW OF FUNDS THROUGH THESE OPEN CHANNELS IN PAST WEEKS EVIDENTLY INSUFFICIENT TO MEET NET PAYMENTS NEEDS FOR TRADE, INVISIBLES AND PERMISSIBLE LONG-TERM CAPITAL FLOWS, SO THAT YEN RATE IS AGAIN WEAKENING.

4. OCTOBER ALLOCATION OF IMPACT LOAN REPORTED TO BE UNCHANGED FROM SEPTEMBER AT \$170 MILLION (THIS LIMITED OFFICIAL USE

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PAGE 02 TOKYO 13319 02 OF 02 122321Z

EQUIVALENT TO 12 PERCENT OF AGGREGATE MONTHLY CEILING ON YEN LOANS BEING IMPOSED ON JAPANESE BANKS IN FOURTH QUARTER AS PART OF TIGHT MONEY POLICY). SOME TEXTILE AND SHIPPING COMPANIES NOW BEING PERMITTED TO SEEK IMPACT LOANS, GENERALLY WITH JAPANESE BANK GUARANTEE. EUROPEAN BANKERS EVIDENTLY MORE WILLING TO ARRANGE (DOLLAR DOMINATED) IMPACT LOANS THAN U.S. BANKERS. LATTER CITE TIGHTER HEAD OFFICE POLICY E.G., BIGGER SPREADS BETWEEN COST OF FUNDS AND RATES CHANGED, DEALS PRIMARILY WITH TRADITIONAL TOP-GRADE CUSTOMERS, AND CONSIDERATIONS OF LEVEL OF BANK'S TOTAL COUNTRY EXPOSURE.

5. DRAW-DOWN BY BANKS OF UNUTILIZED SWAP LINES BEING DONE CAUTIOUSLY, DEPENDING ON FAVORABLE ARBITRAGE INCENTIVE. PROCEEDS CAN ONLY BE UTILIZED IN MONEY MARKET AND SOME BANKERS UNWILLING TO PAY OFF CALL MONEY INDEBTEDNESS FOR FEAR THAT BOJ MAY RESTRICT THEIR FUTURE BORROWINGS. FURTHERMORE, BECAUSE BOJ APPROVAL NEEDED FOR REDUCTIONS (AS WELL AS INCREASES) IN SWAP LINES, BRANCHES CONSIDER SWAPS AS REPRESENTING LONG-TERM FUNDING INVOLVING CONSIDERABLE RISKS (I.E., FUTURE BORROWING-LENDING RATES AND GAIN OR LOSS ON FORWARD CONTRACTS). RESTRICTIONS PREVENT JAPANESE BANKS FROM ENGAGING IN SIMILAR IMPACT LOANS AND SWAPS.

6. DESPITE CONCRETE EVIDENCE OF IMPROVEMENT IN RECENT MONTHS IN JAPAN'S PAYMENTS POSITION (I.E. EXPORT GROWTH BUT STABLE IMPORTS), THERE IS CONSIDERABLE DIVERGENCE OF OPINION REGARDING OUTLOOK FOR YEN RATE. FOREX TRADER OF LARGE TRADING COMPANY BELIEVES YEN WILL STRENGTHEN TO 295-300 RANGE AFTER MID-OCTOBER,

AND RISE FOR PERHPS 280/DOL IN DECEMBER, BEFORE  
DROPPING NEXT JANUARY AND FEBRUARY FOR USUAL SEASONAL  
MOVEMENT IN TRADE. ON OTHER HAND FOREX TRADER AT  
BIG U.S. BANK HEARS RUMOR OF 320/DOL RATE BEFORE YEAR-  
END.

7. FAVORABLE PSYCHOLOGICAL IMPACT ON YEN RATE A FEW  
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PAGE 03 TOKYO 13319 02 OF 02 122321Z

WEEKS AGO DUE TO REPORT OF CURRENT ACCOUNT SURPLUS IN  
AUGUST AND RECEIPTS OF PETRO-DOLLARS BY GOJ HAS BEEN  
SHORT-LIVED AND SOME BOJ SUPPORT HAS AGAIN BECOME  
NECESSARY. IN SEPTEMBER, OFFICIAL RESERVES INCREASED  
(300 MILLION. REPORTS SAY THIS IS DUE TO MOF WITH-  
DRAWAL OF \$500 MILLION IN FOREIGN EXCHANGE FROM  
JAPANESE BANKS -AN AMOUNT EQUAL TO THE PROCEEDS OF  
SAUDI ARABIAN OIL MONEY DEPOSITED BY MOF IN BANKS ON  
SEPTEMBER 18 (TOKYO 12485 NOTAL). PROCEEDS OF THOSE  
FUNDS HAVE EVIDENTLY NOT PROVIDED MORE THAN TEMPORARY  
PSYCHOLOGICAL SUPPORT TO FOREX MARKET, PROBABLY  
BECAUSE UNDER BOJ REGULATIONS DOLLAR PROCEEDS ARE NOT  
PERMITTED TO BE BROUGHT INTO JAPAN.  
HODGSON

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM, FOREIGN EXCHANGE RATES, YEN (CURRENCY), CAPITAL FLOWS, BANK LOANS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 11 OCT 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** golinofr  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1974TOKYO13319  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D740291-1022  
**From:** TOKYO  
**Handling Restrictions:** n/a  
**Image Path:**  
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**Legacy Key:** link1974/newtext/t19741050/aaaabqwt.tel  
**Line Count:** 250  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EA  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 5  
**Previous Channel Indicators:**  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** golinofr  
**Review Comment:** n/a  
**Review Content Flags:**  
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**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <03 APR 2002 by boyleja>; APPROVED <30 JUL 2002 by golinofr>  
**Review Markings:**

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30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
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**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** RECENT FOREIGN EXCHANGE MARKET DEVELOPMENTS SUMMARY: YEN HAS DECLINED BY 1.6 PERCENT FROM  
**TAGS:** EFIN, JA  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005